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RUEHRL/AMEMBASSY BERLIN 6722
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RUEHBS/AMEMBASSY BRUSSELS 6551
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RUEHBU/AMEMBASSY BUENOS AIRES 1469
RUEHLC/AMEMBASSY LIBREVILLE 1269
RUEHJL/AMEMBASSY BANJUL 0336
RUEHBJ/AMEMBASSY BEIJING 1601
RUEHIN/AIT TAIPEI 1351

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STATE FOR EB/IFD/OMA
TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSAA
PASS EXIM FOR CLAIMS -- EDELARIVA
PASS USDA FOR CCC -- ALEUNG/DERICKSON/KCHADWICK
PASS USAID FOR CLAIMS
PASS DOD FOR DSCS -- PBERG

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SUBJECT: PARIS CLUB - November 2007 TOUR D'HORIZON

Summary

1. (U) At the November 14, 2007 Paris Club tour d'horizon, Chairman Musca urged countries to stay on message in their contacts with the government of Argentina - Argentina should clear its arrears. Iraq's recent agreement with Bulgaria was deemed roughly comparable to Iraq's Paris Club agreement, and Russia was urged to sign its debt agreement with Iraq. Other countries discussed included Angola, Gabon, Gambia, Guinea, Jordan, and Liberia. Creditors also discussed a number of methodological issues, including relations with China and litigating creditors.

Angola

2. (SBU) Creditors are waiting for Angola to notify the Secretariat that it has accepted the Paris Club's proposal for settling late interest. (Under the terms of the proposal, Angola would commit to pay, in three installments over the next 26 months, \$1.8 billion out of \$2.2 billion in late interest due. The U.S. was not part of the

agreement, as it was not owed any late interest.) The Secretariat does not anticipate a negative response. Japan said it was willing to fix Angola's payments in dollars because of the need to seize this opportunity, but insisted that, in the future, the debtor should be required to pay amounts owed in original currency, so that the debtor, not creditors, will bear exchange rate risk. The Secretariat assured Japan that Angola would not set a precedent.

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Creditors approved without comment the draft press release that will announce that economic and financial relations with Angola will be normalized. The Secretariat said creditors could implement the late interest settlement either through an exchange of letters or through a simple bilateral agreement.

Argentina

13. (SBU) Paris Club Chairman Musca met Javier Alvaredo, Argentina's point person on Paris Club issues, on the margins of the IMF/World Bank meetings. The meeting, however, was not particularly fruitful.

Musca reiterated that, in the absence of an IMF program, the only solution was a voluntary arrears payment plan, without any restructuring of the debt. The Secretariat told creditors that the next step was to wait for the new cabinet to be named. In the meantime, the Secretariat urged creditors to stay on message: there can be no rescheduling without an IMF program; Argentina should clear its arrears (using reserves, its fiscal surplus, or proceeds from new borrowing); and the Paris Club is ready to listen to any proposals. Cohesion on export credit agency (ECA) cover policy is key to PC leverage. Asked about press reports of a possible Policy Support Instrument (PSI), the IMF noted that GOA authorities have not expressed any interest in an IMF program, and Argentina would not qualify for a PSI. The IMF is available to provide policy advice. The Secretariat does not intend to respond to the American Task Force Argentina's (AFTA) recent letter. Referring to that letter, Spain stated that it knew nothing about an offer from Argentina and insisted that it had been, and would continue to be, transparent.

Gabon

14. (U) Creditors agreed to extend from December 1 until December 17 the deadline for Gabon to declare how much debt it wishes to buy back under the Paris Club agreement reached in July 2007 (the U.S. will not participate in the buyback). Gabon requested the extension, citing the need to obtain parliamentary approval for new borrowing - a \$1 billion international bond issue - that will help finance the buyback. S&P and Fitch have given Gabon a BB- rating. For now, Gabon still intends to conduct the buyback by the original settlement deadline of January 30, 2008. If delays develop, the Secretariat said there was scope to push back the date, as the next

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maturity is March 30, 2008. The U.S. reported \$3.5 million in arrears; Japan and Spain reported small technical arrears (\$40 and 55,000 Euros, respectively). The Secretariat said it would tell the authorities to clear these arrears as soon as possible.

Gambia

15. (U) The IMF reported that a mission just returned with a positive assessment and that the IMF's Executive Board will consider Gambia's "Completion Point" under the enhanced Heavily Indebted Poor Countries Initiative (HIPC) in December, together with the second review of the Poverty Reduction and Growth Facility (PRGF) program. The World Bank's International Bank for Reconstruction and Development's (IBRD) did not collect a payment in November, foregoing interest owed to the International Development Association (IDA), with the expectation of forgiving it at Completion Point. The Secretariat said it would launch a data call, in anticipation of negotiations in January. (The U.S. is not a creditor.)

Guinea

¶6. (U) Creditors provided provisional financing assurances for Guinea's new PRGF, pending confirmation from Russia (Russia has since provided this confirmation). Approval of the PRGF will trigger a resumption of interim HIPC debt relief (i.e. "Cologne terms"). The IMF said Guinea's capacity to pay was very limited. The Secretariat said standard Cologne terms would not suffice and indicated that creditors would need to defer post-cutoff debt (i.e., debt originally contracted after January 1, 1986) and short-term debt, and capitalize interest payments, similar to what was done for the Central African Republic and Haiti. IMF Executive Board discussion is tentatively set for December 17, 2007 subject to completion of some prior actions. Guinea could meet 2002 "Completion Point" requirements by end-2008 under an optimistic scenario.

Iraq

¶7. (U) The Secretariat commented on two documents received from Iraq: (1) a press release announcing a bilateral debt agreement signed with Bulgaria, and (2) a status report on Iraq's efforts to conclude debt restructuring agreements with its remaining bilateral creditors. The Secretariat said its analysis showed that the agreement with Bulgaria broadly met the comparability of treatment terms of the Paris Club agreement. There was no comment from creditors about the upfront cash payment involved - the first of its kind Iraq will make to a bilateral creditor. The Secretariat briefly summarized the contents of the progress report but suggested postponing further discussion until the December session.

¶8. (SBU) Russia reported that a meeting would take place at the end of November 2007 between Russian and Iraqi officials, after which the prospect for finalizing the long-delayed bilateral agreement implementing the 2004 Paris Club Agreed Minute would be clearer. The Russian delegate said the objective was to finalize the bilateral as soon as possible, and he expressed optimism that this could happen by year-end. Finalization of the agreement was one of the key objectives in Russia's relations with Iraq. The Secretariat stated that creditors should implement PC agreements, and that appropriate senior Russian officials should be reminded of this. Belgium questioned why Brazil still has not concluded a bilateral agreement with Russia on Paris Club-comparable terms. The Secretariat said it would put the question to Brazil next month.

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Jordan

¶9. (U) Canada reported that it has decided to participate in Jordan's buyback. (Canada accounts for just 1.0 percent of Paris Club debt eligible to be bought back.)

Liberia

¶10. (U) Creditors agreed to provide financing assurances for Liberia's new PRGF, following the IMF's announcement that it had received sufficient pledges from donors to proceed with arrears clearance. The Netherlands and Norway again expressed concerns about litigating creditors. The World Bank said the oversight committee for the IDA's Debt Reduction Facility (DRF) had approved the financing of an operation for Liberia at HIPC "Decision Point" (until now, DRF financing has been at Completion Point). The World Bank said it would be counterproductive to start negotiations with commercial creditors until the common reduction factor was determined. The IMF pledged to move as quickly as possible. The Fund needs to change the HIPC Trust instrument to make a Staff Monitored Program part of the economic reform track record, equivalent to other IMF programs such as a Stand-By Arrangement (SBA) or an Emergency Post-Conflict Assistance (EPCA); if approved, this change would apply to other HIPCs in the future. The IMF has started work on a debt sustainability analysis (DSA) and will circulate a preliminary HIPC document in December. Arrears clearance, PRGF approval, and Decision Point are likely to take place in January 2008. Paris Club negotiations would take place in March, following the February break. As in Guinea's case, the Secretariat said standard Cologne terms would not suffice and

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indicated that creditors would need to defer post-cutoff (debt contracted after January 1, 1983) and short-term debt, and capitalize interest payments.

Countries having no relations with the IMF and the Paris Club

¶11. (U) Several creditors (Denmark, Germany, Italy, Japan, Netherlands) commented that the Secretariat's working paper was either too restrictive or lacked clarity. (The paper outlines under what circumstances creditors are free to act bilaterally to recover their claims.) Some creditors requested more clarity on the scope of debts concerned (e.g., whether to include non-rescheduled or short-term debt); others requested that the Secretariat prepare a list of countries considered "away from the Club." The Secretariat explained that the guidelines in the working paper were not absolute, and that the main point was that creditors should decide collectively when it is appropriate to act bilaterally. The Secretariat agreed to update the working paper to respond to the

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questions and concerns raised. Several creditors (Austria, Denmark, Finland, Netherlands, Russia, Sweden) reported Libya was in arrears and asked the Secretariat to recommend a way forward. The Secretariat will draft a letter from Chairman Musca to the Libyan

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authorities and prepare a working paper on possible next steps. (The U.S. is not a creditor to Libya.)

Relations with China

¶12. (SBU) The Secretariat will seek a meeting with Chinese Ministry of Finance and other PRC officials to make a presentation on the principles and functions of the Paris Club. The Secretariat said Chinese membership in the Paris Club was not a realistic near-term goal. Rather, the purpose of the meeting is to initiate a technical dialogue, with the ultimate aim of encouraging China to cooperate in providing PC-comparable debt treatments. Creditors agreed that it would be prudent to exclude Taiwan, which had approached the Club, from the dialogue. The Secretariat said an initial meeting could take place in Beijing, followed by a meeting in Paris. Creditors agreed with the Secretariat's suggestion that creditors mention in their own bilateral meetings with China the Paris Club's desire to initiate a technical dialogue, while clarifying that the Club does not seek Chinese membership. The IMF said that, according to PRC officials, China already has a policy on canceling debt owed by African countries, but does not participate in the HIPC initiative, a policy of the West. Although China does cancel official development assistance (ODA) debt, it does not cancel credits extended by China Exim Bank, nor does it reschedule debt. Many PRC entities are active in low-income countries, and the PRC lacks a unified reporting system, though a council meets to discuss individual countries. The Secretariat agreed to incorporate creditors' concerns and questions into a presentation on debt treatment, which it will first share with creditors.

Litigating creditors

¶13. (U) The Secretariat summarized the results of the data call (which the U.S. initiated) on legislation related to the protection of sovereign assets. Creditors offered little reaction. The UK suggested that the Paris Club revisit the issue once lawyers have had a chance to digest the results. Belgium expressed interest in learning more about how countries and institutions (such as the World Bank) protect their own aid flows from being attached by litigating creditors. The World Bank said its funds were protected under UN international immunity rules. The Secretariat said it would circulate information about France's laws protecting overseas development assistance.

Status of escrow accounts

¶14. (U) Creditors discussed the Secretariat's proposed guidelines for closing escrow accounts opened by HIPC-eligible countries to service debt owed to the Paris Club. According to the Secretariat's research, 24 HIPC countries opened escrow accounts in the past, as required by their agreements with the Paris Club. Fourteen of these countries have since reached Completion Point. The Secretariat proposed that the accounts be closed and the money returned only if the debtor has reached HIPC Completion Point and either has no more debt to the Paris Club or has established a two-year track record of servicing its remaining Paris Club debt after Completion Point. In the end, creditors agreed to examine the accounts on a case-by-case basis, rather than apply rigid rules. The amounts involved are small. Mozambique's account at the Banque de France contains \$2.4 million; Benin, Cameroon, Congo, Cote d'Ivoire, and Niger also have accounts at the Banque de France which together are worth just \$630,000. The Secretariat is seeking more information about accounts at the Bank of England.

OECD export credit working group proposal on sustainable lending

¶14. (U) Italy and the Netherlands summarized recent efforts in the OECD export credit working group to reach agreement on a set of guidelines to promote sustainable lending from export credit agencies to low-income countries. The Netherlands noted that although nothing had been agreed yet (responses are due by November 30, 2007), the fact that a number of non-OECD members (including China, Brazil and India) had participated in the discussions was very encouraging. The guidelines would send an important signal, and this message will complement efforts in other fora (IMF, IBRD, G-20, etc.). There is an outreach process, with a February 20, 2008 meeting with non-OECD countries to follow. While the Paris Club is not the right forum to go into further details, the Secretariat said the PC can help raise awareness of the issue. The IMF underscored the importance of this OECD work, which complements the Fund's ongoing outreach efforts.

STAPLETON